

Message Text

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ACTION EUR-12

INFO OCT-01 ISO-00 EURE-00 SSO-00 NSCE-00 USIE-00 INRE-00

AID-05 CEA-01 CIAE-00 COME-00 EB-07 FRB-03 INR-07

NSAE-00 CIEP-01 SP-02 STR-04 TRSE-00 LAB-04 SIL-01

SAM-01 OMB-01 AGR-05 L-03 H-02 PRS-01 ITC-01 SS-15

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FM USMISSION EC BRUSSELS

TO SECSTATE WASHDC IMMEDIATE 1529

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E.O. 11652: N/A

TAGS: EEC, AGR

SUBJECT: COMMISSION PROPOSAL TO TAX VEGETABLE FATS AND OILS

REF: STATE 170962

1. AMBASSADOR HINTON, ACCOMPANIED BY JOHNSTON, CALLED ON EC COMMISSIONER FOR EXTERNAL AFFAIRS SOAMES (AND HANNAY) ON JULY 13, IMMEDIATELY UPON THE SOAMES' RETURN FROM THE UK, TO MAKE A DEMARCH AGAINST THE COMMISSION'S PROPOSAL FOR A TAX ON FATS AND OILS. THE AMBASSADOR DREW ON REFTEL AND GAVE SOAMES AN AIDE-MEMOIRE BASED THERON.

2. SOAMES RESPONDED THAT HE HAD TWO POINTS THAT HE WISHED TO MAKE OFFICIALLY: 1) HE DOES NOT ACCEPT THE POINT THAT THE COMMUNITY'S PROPOSED TAX WOULD IMPAIR US GATT BINDINGS. THE TAX IS DEFENSIBLE UNDER THE GATT. 2) THE ORIGINAL PROPOSITION HAD BEEN THAT THERE BE A LEVY AT THE BORDER ON SOY-BEANS. HE COULD NOT UNDERSTAND HOW THE US REACTION COULD HAVE BEEN ANY STRONGER THE COMMISSION PROPOSED SUCH A

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LEVY RATHER THAN THE TAX ON OILS AS CURRENTLY PRO-

POSED. IT HAD TAKEN A HARD EFFORT TO TURN AROUND THE PROPOSAL FOR THE SOYBEAN LEVY AND HE COULD NOT SEE THAT THERE WAS ANY RECOGNITION OF THIS IN THE US REACTION.

3. AMBASSADOR HINTON SAID THAT MANY SCHEMES CAN BE DEFENDED IN GATT. IT IS A LAWYER'S PARADISE. THE IMPORTANT POINT IS THAT THE COMMISSION'S PROPOSAL REPRESENTED PROTECTIONISM AND TRADE RESTRICTION. A VERY HIGH PROPORTION OF THE COMMUNITY'S FATS AND OILS IS IMPORTED. CONSEQUENTLY THE EFFECT OF A TAX WOULD FALL MAINLY ON IMPORTS. THIS IDEA OF A TAX ON OILS OR SOYBEANS HAS BEEN AROUND SINCE 1964 AND NO ONE SHOULD BE SURPRISED AT A STRONG US RESPONSE NOW THAT THE IDEA HAS AGAIN COME FORWARD.

4. SOAMES SAID, SPEAKING ON A PERSONAL BASIS, THAT HE WAS NOT PERSONALLY FAVORABLE TO THE TAX. HE HAS NOT LIKED IT FOR A NUMBER OF REASONS SOME OF WHICH ARE QUITE DIFFERENT FROM THOSE ADVANCED BY THE US. THE DAMAGE TO THE LDCS IS THE STRONGEST ARGUMENT. (HE WAS SURPRISED THAT NO LDC HAD YET PROTESTED.) THE SECOND ARGUMENT IS THAT THE TAX WOULD NOT HANDLE THE PROBLEM OF OVER-PRODUCTION OF MILK. MOREOVER, IT WOULD PUSH PRICES UP. NEVERTHELESS, HE CONTINUED TO BELIEVE THAT US REACTION WAS STRONGER THAN THE CIRCUMSTANCES WARRANTED.

5. THE AMBASSADOR ADDED THAT THERE HAS BEEN CONSTANT CONCERN IN THE US OVER THE NON-FAT DRY MILK SITUATION AND MANY NOW SEE THE COMMISSION'S TAX PROPOSAL AS A REASON FOR REGRET THAT THE US HAD TRIED TO WORK MATTERS OUT ON NON-FAT DRY MILK. HE PERSONALLY THOUGHT WE HAD BEEN RIGHT TO TRY TO MANAGE THE NFDM PROBLEM AND WE SHOULD CONTINUE TO DO SO BUT THE PROOF WOULD LIE IN COMMISSION RECONSIDERATION OR COUNCIL REJECTION OF THE TAX. SOAMES RAISED THE COMMUNITY'S WISH TO SEE BETTER ACCESS FOR DAIRY PRODUCTS IN THE US BUT SAID THAT HE WOULD NOT ADD ANYTHING FURTHER TO PREVIOUS COMMENTS BY LARDINOIS. AMBASSADOR REPLIED US IS READY FOR LIMITED OFFICIAL USE

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BROAD AGRICULTURAL NEGOTIATIONS BUT THE ATMOSPHERE THAT WOULD INEVITABLY DEVELOP SHOULD TAX BE ADOPTED COULD IRRETRIEVABLY COMPROMISE EFFORT.

6. COMMENT: SOAMES SEEMED SOMEWHAT TIRED AND DID NOT REALLY RESPOND IN HIS USUAL LIVELY FASHION. IT IS CLEAR THAT HE UNDERSTANDS THE DANGEROUS SITUATION THAT THE COMMISSION'S PROPOSAL HAS BROUGHT ON,

BUT IS SOMEWHAT AT A LOSS BECAUSE OF HIS INABILITY
TO HAVE PREVENTED THE COMMISSION FROM PUTTING THE PROPOSAL
FORWARD. HINTON

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